INNOCAN PHARMA CORPORATION

Management's Discussion and Analysis
For the year ended December 31, 2022

1. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is management's assessment of the results and financial condition of Innocan Pharma Corporation (the "**Company**").

The following information should be read in conjunction with the notes to the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2022.

The date of this management's discussion and analysis ("**MD&A**") is March 30, 2023. The Company's amounts in this MD&A have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All dollar amounts are stated in United States dollars ("**USD**") unless otherwise indicated (for reference, "**CAD**" means Canadian dollars).

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information within the meaning of applicable Canadian securities legislation ("**forward-looking information**"). Such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made.

In some cases, these forward-looking statements can be identified by words or phrases such as "may", "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues", "plans", "aim", "seek" or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on current expectations and projections about future events and financial trends that they believe may affect the Company's financial condition, results of operations, business strategy and financial needs.

Forward-looking information contained herein is given as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results, except as may be required by applicable securities laws. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see the section titled "Risks and Uncertainties" herein.

2. DESCRIPTION OF BUSINESS

Company Overview

Innocan Pharma Corporation was incorporated under the *Canada Business Corporations Act* on May 31, 2018. The Company's registered office is 1015, 926 – 5 Avenue SW Calgary, Canada and its corporate website is www.innocanpharma.com. The Company is publicly listed on the Canadian Securities Exchange trading under the symbol INNO, and is quoted in the United States on the OTCQB venture market under the symbol INNPF, and is listed for trading in Germany on the Frankfurt stock exchange under the symbol IP4. The Company is the parent company of Innocan Pharma Ltd. ("**Innocan**").

Innocan is a pharmaceutical technology company that focuses on the development of several drug delivery platforms, combining cannabinoids, especially cannabidiol ("**CBD**"), with other pharmaceutical ingredients as well as the development and sale of CBD-integrated pharmaceuticals and topical products. Innocan is at a pre-clinical stage and is expected to conduct activities mainly in the United States (US), Canadian and European (EU) markets. Innocan's operations and research and development activities are based in Israel.

In October 2019, Innocan announced its plans to enter the CBD beauty market and to manufacture CBD cosmetic products. Innocan intends to sell its CBD cosmetic products primarily in the US, Canadian and European markets. For more information on Innocan's product lines, please see details on SHIR | Beauty & Science (shirbeauty.com) and its corporate website at www.innocanpharma.com. The websites are not incorporated into this MD&A and do not form part of this MD&A.

On May 5, 2021, Innocan Pharma UK Ltd. ("Innocan UK") was established, as a management and financial services supplier of Innocan in the European market, regarding the sales of its topical products. Innocan holds 100% of Innocan UK's shares. As of December 31, 2022, Innocan UK had not commenced operation.

On May 26, 2021, Innocan entered into a founder's agreement with Brandzon Co. Ltd. ("**Brandzon**"), to establish a joint venture by the name of B.I. Sky Global Ltd. ("**Sky Global**") that focuses on the development of beauty microbrands for online platforms such as Amazon, and other e-commerce and online marketplaces.

In bringing together a unique combination of experts in online marketplaces, e-commerce, logistics, operations and finance, Sky Global is focusing on advancing online sales for microbrands.

References throughout to "Innocan" and the "Company" refer generally to the collective activity and operations of both entities, in aggregate. Innocan consolidates ,Innocan UK and Sky Global activity and operations.

Description of the Company's Principal Businesses and Operations

Company's Activity Under Research Agreements

On January 12, 2022, the Company announced a second amendment (the "**Second Amendment**") to the research and license agreement with Yissum Research Development Company of the Hebrew University of Jerusalem Ltd. ("**Yissum**") in connection with the evaluation of the efficacy of the Company's CBD-loaded liposome platform technology ("**LPT**") in treating dogs. Pursuant to the Second Amendment, Yissum will conduct additional research related to liposomal CBD on dogs

(the "**Additional Research**") for an additional research fee of $100,000. The Additional Research will be performed by Professor Merav Shamir of the veterinary neurology and neurosurgery department at the Koret School of Veterinary Medicine Hospital, Hebrew University of Jerusalem for a period of six months, in accordance with a new research program and budget which will supplement the previous research program pursuant to the original research and license agreement. The Company expects to initiate licensing discussions regarding the veterinarian application of this form of CBD therapy within the next 12 months, and to proceed to the safety testing stages throughout 2023, subject to the terms of the license agreement. The Company estimates the costs of the current stage for the next 12 months to be approximately $1,200,000. Any approvals will be determined based on the future business arrangements regarding licensing.

On January 17, 2022, the Company announced that it inaugurated its first drug research and development lab at Biohouse Labs at Hadassah Medical Center in Jerusalem to accelerate the Company's LPT development. The Company's development program is focused on improving and optimizing LPT characterization methods and upscaling capabilities. A staff of six individuals (scientists and scientific assistants) are working on the accelerated development of the LPT technology.

On March 8, 2022, the Company reported a positive result from the use of its CBD LPT on a dog suffering from osteoarthritis of the hip and elbow joint (causing inability of the dog to walk and stand up, as well as intense pain and a low activity rate). CBD LPT injection was provided as a treatment and led to a decrease in pain and improved activity and vitality, as reported by the dog's owner. The CBD was administered to the dog and the Company's LPT remained in the dog's plasma for 28 days.

On March 28, 2022, the Company reported the successful completion of its CBD liposome physico-chemical characterization.

On April 29, 2022, the Company announced the publication of a case report in Frontiers in Veterinary Science regarding its compassionate care liposomal-CBD formulation (Innocan's LPT platform). The formulation was administered to a 14-year-old dog suffering from severe cervical pain, hip and elbow osteoarthritis and testicular neoplasia. It was reported that the administration resulted in decreased pain and improved mobility.

On June 10, 2022, the Company announced successful preliminary results of a small-scale efficacy trial in dogs with refractory (drug-resistant) epilepsy. In this initial phase, the dogs were treated with Innocan's LPT injection, and results demonstrated that the dogs experienced a decreased frequency of epileptic seizures.

On June 24, 2022, the Company announced a successful preclinical trials in dogs with osteoarthritis. The trials reported decreased pain in dogs suffering from severe osteoarthritis in most joints, and severe muscle atrophy surrounding the pelvic limbs. Innocan's liposomal CBD was administered in addition to joint supplements, non-steroidal anti-inflammatory drugs, and hydrotherapy.

On July 6, 2022, the Company announced a successful preclinical trial involving a dog with refractory (drug-resistant) epilepsy. Paco, a 47 kg male can corso suffering from refractory idiopathic (drug-resistant) epilepsy was treated with Innocan Pharma's LPT injections. The results demonstrated that the frequency and the intensity of the dog's epileptic seizures decreased significantly.

On July 12, 2022, the Company announced that it had appointed Nissim Vasilevski to the role of Analytical Chemist. In this role, Mr. Vasilevski joined the team developing analytical methods to accelerate the Company's LPT product line, with a view to reaching human clinical trials and eventually, a U.S. Food and Drug Administration submission.

On August 11, 2022, the Company announced results that approached 100% bioavailability following subcutaneous injection of its CBD via LPT delivery system in a clinical study conducted on dogs suffering from pain (compared to data following intravenous administration). Typically, oral administration of CBD by humans' results in bioavailability levels of between 6.5-20% of administered dosage.

On August 17, 2022, the Company announced positive partial results in a pilot pain study in dogs using LPT. Six dogs suffering from osteoarthritis and lameness that were treated with oral analgesics but were still experiencing pain were administered a single subcutaneous injection of liposomal CBD in addition to their routine analgesics. CBD concentrations were observed for six weeks following the injection in the dogs' plasma. Owners reported that the dogs' pain and well-being scores were improved for several weeks after the injection. The results demonsrate that the LPT technology has the potential to provide additional analgesia in dogs suffering from pain.

On September 9, 2022, the Company announced positive results in a new preclinical trial involving a dog with refractory (drug resistant) epilepsy. The 22 kg male border collie was treated with three anti-epileptic drugs but was still suffering from seizures several times a month and was hospitalized approximately once a month. The dog was treated with several injections of Innocan Pharma's LPT within 4-week intervals. During the several months of the trial, the dog did not require hospitalization, nor experience a single seizure for nine-and-one-half weeks.

On December 2, 2022, the Company signed a consulting agreement with Benitz Consulting LLC to assist the Company's commercialization of IP in the veterinary field. The principal of Benitz Consulting is Dr. Antonio Benitz, ex Novartis Animal Health and Pharmacia Animal Health VP of R&D. Dr. Benitz also served as a senior executive at Merial and director at Merck. The goals of the consulting agreement are for Benitz Consulting to consult on paths of commercialization in the animal health industry; provide Innocan with development plans, regulatory approaches, and study designs for CBD products to be used in animals; manage relationships or participations with CRO's, third parties, universities or other organizations (including regulatory agencies and potential partners); and present the CBD products to animal pharma companies to create potential cooperation opportunities with such companies.

The table below provides a description of each of Innocan's major projects. More stages are required in order to receive full regulatory approval. Forward-looking information is based on estimations at the time of this report. Actual results may vary.

Milestones	Milestone status	Expenditures Incurred to Date (US$)	Estimated Costs to Achieve Milestone (US$)	Expected Time Period
Project: CBD-loaded exosomes (the "CLX Project")				
Literature research	Concluded			
Exosome production and purchase	Undergoing production	81,000	59,000	On-going
Exosome	Undergoing production	Part of the payment to	See Ramot Research	Complete

Milestones	Milestone status	Expenditures Incurred to Date (US$)	Estimated Costs to Achieve Milestone (US$)	Expected Time Period
characterization		Ramot. See Ramot Research Agreement costs below.	Agreement costs below.	
CBD synthesis for Exosome loading	Work undergoing	172,000	28,000	Q3 23- Q1 24
Loading the CBD in the Exosome	Work undergoing	Part of the payment to Ramot. See Ramot Research Agreement costs below.	See Ramot Research Agreement costs below.	Q-3 23
In - Vitro	Work undergoing	Part of the payment to Ramot. See Ramot Research Agreement costs below.	See Ramot Research Agreement costs below.	Q3 23- Q1 24
Production of the CLX	In preparation	Part of the payment to Ramot. See Ramot Research Agreement costs below.	See Ramot Research Agreement costs below.	Q4 23- Q2 24
In-Vivo (animal study)	In preparation	Part of the payment to Ramot. See Ramot Research Agreement costs below.	See Ramot Research Agreement costs below.	Q4 23- Q2 24
Safety in animals (including Pharmacokinetic, toxicity, bio-distribution)	Waiting for animal model results	-	600,000	Q2 24- Q4 24
Ramot Research Agreement		819,000	1,281,000	
Total pre-clinical		**1,072,000**	**1,968,000**	
Project: CBD Loaded Liposomes Technology (the "LPT Project")				
Development of initial matrix of liposomal formulations of cannabidiol	Concluded	Part of the payment to Yissum. See Yissum Research costs below.	Part of the payment to Yissum. See Yissum Research costs below.	
Characterization of the physicochemical properties, drug loading, short-term stability and release in the presence of serum	Concluded	Part of the payment to Yissum. See Yissum Research costs below.	Part of the payment to Yissum. See Yissum Research costs below.	
Small animal study	concluded	Part of the payment to Yissum. See Yissum Research costs below.	Part of the payment to Yissum. See Yissum Research costs below.	
Animal study of different indications	On-going	Part of the payment to Yissum. See Yissum Research costs below.	Part of the payment to Yissum. See Yissum Research costs below.	Q3 23

Milestones	Milestone status	Expenditures Incurred to Date (US$)	Estimated Costs to Achieve Milestone (US$)	Expected Time Period
Safety in animals (including Pharmacokinetic, toxicity, bio-distribution)	Waiting to animal model results	-	500,000	Q3 23- Q1 24
Yissum Research		2,985,000	1,068,000	The Company and Yissum entered negotiations for a new research and license agreement for the next phase of the research. The Company is intending to sign a sub-licensing agreement before reaching Phase II.
Total Pre-Clinical (including safety)		**2,985,000**	**1,566,000**	
Veterinary application clinical use study		-	1,200,000	Q2 23- Q324
Project: CBD - Topicals (the "Topicals Project")				
	Production & registration submission done	1,230,000	Budget depends on many parameters, such as nature of distribution agreements to be signed, COVID-19 effect on the market, regulatory changes.	On-Going
	Marketing & brand recognition	735,000	365,000	On-Going
	Efficacy studies	45,000	80,000	On-Going

In general, and as is the case for each of the CLX Project and the LPT Project, in order to develop a new treatment, drug or medical procedure in a clinical research and development context, the following phases are required:

Preclinical: this phase involves the testing in non-human subjects to gather information regarding efficacy, toxicity and pharmacokinetic data; particularly oral bioavailability and half-life of the given drug or treatment.

Phase I: this phase introduces "dose-ranging" on healthy volunteers or genuine patients (this depends on the indication, but could also be considered Phase I/II); the purpose of this phase is to evaluate safety.

Phase II: this phase involves further testing of the given drug or treatment on participants to assess efficacy and monitor for any side effects.

Phase III: this phase expands testing of the given drug or treatment on participants in larger numbers to similarly assess for efficacy, effectiveness and safety.

Phase IV: Post marketing surveillance in public.

With respect to each of the CLX Project and the LPT Project, the Company is in the Preclinical phase of the research and development. In order to commercialize the CLX Project and LPT Project, each of the above-noted phases will need to be completed. The timeline for completion of the CLX Project and LPT Project is unknown at this time.

Regarding the known costs of the CLX Project, LPT Project and Topicals Project, the Company projects the following, as related to its commitments to fund research and development over the next five years:

Business activity	Term of signed agreement/commitment	Expected US$ commitment for the term	Two-year expected budget[1,3]	Expected five year status[2]
LPT	Yissum (Hebrew University of Jerusalem) – current until Q4 23	1,750,000	5,600,000	At least one licensing agreement, clinical stage
CLX	Ramot (Tel Aviv University) – current until Q4 23	900,000	4,400,000	At least one licensing agreement, clinical stage.
Topicals	No signed agreements carrying any financial commitment	N/A	see comment	Budget depends on many parameters, such as nature of distribution agreements to be signed, COVID-19 effect on the market, regulatory changes.

Notes:

(1) This budget is a forward-looking budget. Actual budget may vary, as the project develops.

(2) The status of the project depends on actual achievements of the research. Actual results may vary, based on the research and development success and the Company's ability to translate those achievements into licensing agreements and/or sales.

(3) Amounts may vary based on signing of future licensing agreements.

Sales, Marketing and Business Development

The expenses addressed below are to be incurred to broadly develop general brand recognition of the Company and its products in a number of jurisdictions (principally, the US and EU). These costs also relate to the development of relationships with potential third party distributors, licensees and wholesalers at the production and distribution end of the product chain, developing relationships with third parties potentially utilizing the Company's services, and promoting product awareness and product attributes with medical, pharmaceutical and other healthcare individuals and enterprises, as well as consumers.

Business Objective	Estimated Cost Related to Business Objectives (USD)	Time Period
Continuing building brand and reputation awareness	~562,500	2023-2024
Online and offline marketing	~262,500	2023-2024
Distributors marketing support	~262,500	2023-2024
Personnel	~1,050,000	2023-2024
Public relations	~150,000	2023-2024
Business development	~150,000	2023-2024
Total:	**$2,437,500**	

Company IP

On May 11, 2022, the Company announced that an international patent application ("**PCT**") titled "Protein-bound Cannabinoid Formulations and Uses Thereof" had recently been published and received the publication number WO 2022/070191, claiming priority from a US provisional application filed in October 2020.

On June 17, 2022, the Company announced that it had filed a new PCT entitled "Compositions for Treatment of Vaginal Atrophy", claiming priority from a US provisional patent. Vaginal atrophy is a condition associated with loss of moisture, thinning, and inflammation of the vaginal walls, which can be associated with decrease in estrogen levels in women, often associated with menopause. The PCT application disclosed compositions which can be used to alleviate vaginal dryness and vaginal atrophy.

July 29, 2022, the Company announced that it had filed a new PCT entitled "Compositions for treatment of diabetic symptoms", claiming priority from an earlier US provisional patent. The company PCT involves a cannabinoid-based composition which can be used to improve circulation and thereby treat ailments associated with diabetes.

On August 5, 2022 the Company announced that it had filed a new PCT entitled "Compositions for treatment of hair loss", claiming priority from an earlier US provisional patent. The composition developed by the company research and development and disclosed in the current PCT can be used to treat and prevent hair loss and is applied topically to the skin or scalp.

On September 21, 2022, the Company announced that its PCT title "CANNABIDIOL-CONTAINING COMPOSITIONS AND USES THEREOF" entered the national phase in both the US and EU. This PCT scope involves extracellular vesicals, such as Exosomes, as a cell delivery platform of cannabinoids for diverse neurological and inflammatory disease.

On October 6 ,2022, the Company reported an additional milestone with respect to Innocan patent application: PCT application WO2021/240505 that claims cannabinoids-based topical compositions for treatment of psoriasis of the scalp, reached the national phase. Entering the national phase is one of the major milestones in a patent lifecycle. By entering US and EU, Innocan

will have the ability to protect its pharmaceutical products in these jurisdictions upon the patent grant.

Other Businesses and Operations

On February 7, 2022, the Company announced the addition of Dr. Kenji Kitatani, former executive officer of Sony Corporation, to the Company's advisory committee, as an advisor to the Asian markets.

On March 4, 2022, the Company announced the appointment of Dr. Eyal Kalo as research and development project manager. In this new role Dr. Eyal Kalo will coordinate internal and external research and development projects, assist in the development progress and manage the cross functional aspects of Innocan's pharma projects.

On May 16, 2022, the Company filed and received a receipt for a Short Form Base Shelf Prospectus with the securities regulatory authorities in each of the provinces and territories of Canada (the "**Base Shelf Prospectus**"). The Base Shelf Prospectus allows the Company to qualify the distribution of up to $100,000,000 of common shares, warrants, units, and subscription receipts or any combination thereof (collectively, the "**Securities**"), during the 25-month period that the Base Shelf Prospectus remains effective. The specific terms of any offering of Securities under the Base Shelf Prospectus, including the use of proceeds from any offering, will be set forth in a prospectus supplement to the Base Shelf Prospectus, which will be filed with the applicable Canadian securities regulatory authorities in connection with any such offering.

On October 20 and 21,2022 the Company participated in the "Luxury Meets CBD" expostion in New York where Innocan showcased its patent pending topicals and premium CBD Derma cosmetic collections

On October 25, 2022, the Company announced its participation in a webinar titled "Investor Day: Companies Disrupting The World We Live In", co-hosted by IR Labs Inc. and the NEO Exchange

On November 18, 2022, the Company announced the addition of Givi Topchishvili, to Innocan's Advisory Committee, as a business strategy adviser, focused on commercializing of healthcare innovations. Givi Topchishvili will join the advisory team to support Innocan's goals to expand its distribution and licensing activities in the US. About Mr. Givi Topchishvili.

On November 9, 2022, the Company announced the successful implementation of Priority Software's Priority™ Enterprise Resource Planning (ERP), which includes financial, logistics, and revenue analysis modules. The new system will optimize numerous financial and procurement processes and improve the Company's efficiency.

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Significant Financial Developments during the Period

1. On January 12, 2022, Innocan announced the Second Amendment to the Yissum Research and License Agreement. As part of the Second Amendment, Innocan agreed to finance additional research in a total amount of approximately US$100,000 in two installments over a period of

nine months. During the year ended December 31, 2022, Innocan paid the full amount of approximately US$100,000. In addition, Innocan paid an amount of US$75,000 to Yissum for achieving preclinical proof of concept in animals, being the first milestone of the Yissum Research and License Agreement.

2. On December 5, 2022, Innocan entered into the third amendment (the "**Third Amendment**") to the Yissum Research and License Agreement. As part of the Third Amendment, Innocan agreed to finance additional research with the aim of meeting the FDA guidance on liposome drug-products in a total amount of approximately US$278,000 which was paid on December 2022. The third amendment is for the period of three months between November 2022 and January 2023. Innocan paid during December 2022 the full amount of $278 thousand. The total expense incurred during the year, 2022 amounted to $185 thousand. There is an ongoing negotiation with Yissum regarding the examination of the next step.

3. On December 6, 2021, Innocan entered into a license and research agreement with Ramot at Tel Aviv University Ltd., under which Innocan agreed to finance additional research in a total amount of approximately US$1,180,000, over a period of 21 months, in four installments. Until December, 2022, Innocan had paid the first installment, in the amount of US$270,000 and a license fee in the amount of US$20,000. The total research expense incurred during the year ended December 31, 2022 amounted to US$232,000. As of December 31, 2022, the second installment, for an additional amount of US$309,000, has been postponed to 2023. The payment of the third and fourth installments is dependent on the progress of the research.

Recent Developments

On February 21, 2023, the Company announced clinical success in its Canine (dogs) Compassionate Care Trial, resulting in improving walking abilities and significant decrease in pain in participating canines. "Lady", an 11-year-old spayed dachshund-mixed dog was suffering from severe autoimmune mediated polyarthritis that resulted in an almost complete inability to walk, accompanied by severe pain and an overall disability. Lady was treated with joint supplements (Glycoflex), steroids, and hydrotherapy, but was still very lame and incapable of walking more than a few steps. In December 2022, as part of the Company's Compassionate Care Trial, Lady was administered Innocan's liposomal CBD injection, in addition to all other treatments. Following injection, Lady demonstrated noticeable improvement, walking longer distances and much faster than she had been previously.

Financial Review

The following financial data was prepared in accordance with IFRS and is presented for the years ended December 31, 2022 and December 31,2021. See below discussion for period over period variations.

Summary of quarterly results (USD in thousands, except for per share data):

	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Revenues	1,135	749	415	260	16	54	89	37
Selling, marketing and distribution expenses	1,158	866[(1)]	922[(1)]	546	880	406	386	823
Research and development expense	357	232	460	477	311	211	375	502
General and administrative expense	995	677[(2)]	812[(2)]	871[(2)]	1,092	1,038	378	1,199
Total operating loss	1,410	1,060	1,977	1,819	2,273	1,624	1,083	2,500
Total finance expense (income), net	(240)	(898)	(150)	(1,090)	(1,668)	2,009	(46)	2,316
Total comprehensive loss	1,170	162	1,827	729	605	3,633	1,037	4,816
Basic (loss) per share	(0.005)	(0.001)	(0.007)	(0.003)	(0.003)	(0.016)	(0.005)	(0.024)
Diluted (loss) per share	(0.005)	(0.001)	(0.007)	(0.003)	(0.003)	(0.016)	(0.005)	(0.024)

Notes:

[(1)] Reclassified immaterial amounts from cost of revenues to selling, marketing and distribution expenses of: US$182,000 and US$314,000 for the three months ended June 30, 2022 and September 30, 2022, respectively.

[(2)] Reclassified immaterial amounts from general and administrative to cost of revenues of: US$7,000,US$9,000 and US$38.000 For the three months ended March 31, 2022, June 30, 2022 and September 30, 2022, respectively.

	Year ended December 31,	
	2022	2021
	USD in thousands	
Revenues	2,559	196
Gross profit	2,107	121
Research and development expenses	1,526	1,399
Selling, general and administrative expenses	6,847	6,202
Operating loss	6,266	7,480
Financial expense (income), net	(2,378)	2,611
Total comprehensive loss	3,889	10,091

	Year ended December 31,		
	2022	**2021**	**2020**
	USD in thousands		
Total current assets	6,878	12,521	4,278
Total non-current assets	98	54	56
Total current liabilities	732	3,564	7,940
Total non-current liabilities	20	-	1
Total revenues	2,559	196	8
Total comprehensive loss attributed to the owners of the parent	3,764	10,047	9,953
Basic and diluted loss per share	(0.016)	(0.05)	(0.06)

The Year Ended December 31, 2022, compared to the Year Ended December 31, 2021

Revenues

For the year ended December 31, 2022, revenues amounted to US$ 2,559,000 compared to US$ 196,000 for the year ended December 31, 2021. The increase in revenues of US$2,363,000 is mainly attributed to the increase in revenues from on-line sales platforms of a subsidiary company, which only commenced its operation towards the end of 2021.

Selling, marketing and distribution expenses

For the year ended December 31, 2022, selling and marketing expense amounted to US$ 3,492,000 (US$ 3,269,000 not including non-cash share-based compensation expense) compared to US$2,495,000 for the year ended December 31, 2021. Of the total increase of US$997,000, an amount of US$1,827,000 was attributed to an increase in Amazon advertising and expenses, which did not exist in the year ended December 31, 2021. These expenses are related to revenue from the operations of Sky Global, which only commenced in 2022. The remainder of the change in selling and marketing expenses was mainly as a result of a decrease in share based compensation expenses, as a result of fewer options being granted during the year ended December 31, 2022 compared to the year ended December 31, 2021.

Research and Development Expenses

For the year ended December 31, 2022, research and development expense amounted to US$1,526,000 compared to US$1,399,000 for the year ended December 31, 2021. The increase, of US$127,000, is mainly attributed is attributed mainly to the following changes:

- research and development expenses by Yissum decreased by US$126,000, is mainly attributed to the Research and License Agreement with Yissum, which ended in July 2021. During the year of 2022 were signed the second and third amendments for additional research. There is an ongoing negotiation with Yissum regarding the examination of the next step;
- research and development service providers expenses increased by US$163,000 due to use of subcontractors as part of the working plan of the LPT project; and

- salary and related expenses increased by US$120,000 in the year ended December 31, 2022, compared to the year ended December 31, 2021, due to hiring of additional staff during 2022.

General and Administrative Expenses

For the year ended December 31, 2022, general and administrative expenses amounted to US$3,355,000 (US$2,731,000 not including non-cash share-based compensation expense) as compared to US$2,707,000 (US$2,143,000 not including non-cash share-based compensation expense) for the year ended December 31, 2021. The decrease of US$352,000 in general and administrative expenses compared to year ended December 31, 2021, is attributed mainly to the following changes:

- share-based compensation expenses, which is a non-cash item and does not affect the cash flows of the Company or result in any negative cash flow, decreased by US$941,000 as a result of fewer options that were granted during year ended December 31, 2022, compared to the year ended December 30, 2021;
- professional services expenses increased by US$274,000 in the year ended December 31, 2022, compared to the year ended December 31, 2021, mainly due to increase in activity of Sky Global, which commenced its activity toward the end of 2021;
- salary and related expenses increased by US$38,000 in the year ended December 31, 2022, compared to the year ended December 31, 2021, due to hiring of additional staff during the nine months period ended September 30, 2022; and
- the remainder of the increase is mainly attributed to an increase in travel, legal and insurance expenses, in the year ended, 2022, compared to the year ended December 31, 2022.

Finance Income (expense)

For the year ended December 31, 2022, net finance income amounted to US$2,378,000 as compared to a net finance expense of US$2,611,000 for the year ended December 31, 2021. The change in finance expense and income, was mainly as a result of changes in fair value of warrants outstanding during the nine months period ended December 31, 2022, compared with the changes in fair value of warrants outstanding during the nine months period ended December 31, 2021. This change in fair value of warrants outstanding is mainly affected by the share price of the Company (which decreased during the year ended December 31, 2022, and increased during the year ended December 31, 2021) and the amount of warrants outstanding. The number of warrants outstanding decreased from December 31, 2021, to December 31, 2022, as a result of warrant exercises. The decrease in net finance expenses resulting from changes in fair value, is a non-cash item, and does not affect the cash flows of the Company or result in any negative cash flow.

Further details on changes in expenses for the previous year presented in the table above can be found at relevant Management Discussion and Analysis documents and Management Information Circulars, that have been filed with Canadian securities regulatory authorities and are available at www.sedar.com.

3. LIQUIDITY AND CAPITAL RESOURCES

On October 13, 2021, the Company completed a private placement, the proceeds of which are being used to fund the research, development and commercialization of the Company's technology and marketing activities (the "**October 2021 Private Placement**"). Should the Company be unable to continue to obtain financing and or commence earning revenue to sustain a commercial operation, the Company may be unable to continue as a going concern.

Since inception, the Company has generated an amount of revenue lower than its operational expenses and expects to continue to finance itself through raising adequate funds in the foreseeable future. The Company has incurred an accumulated deficit of US$28,374,000 since inception (much of this deficit was a result of the changes in finance expense, which is a non-cash item, and does not affect the cash flows of the Company or resulting in any negative cash flow). These events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

As of December 31, 2022, the Company had working capital of US$6,450,000, compared with US$12,035,000 on December 31, 2021, which consisted of current assets of cash and cash equivalents, trade receivables, other accounts receivable and inventory, and trade accounts payable, other accounts payable . The working capital above is a non-GAAP measure since it does not include the balance of the warrants under current liabilities. The warrants balance was not included since it has no effect on the future cash flow of the Company, and not current or future payments are required to be made by the Company.

As of the date of this MD&A, the Company anticipates raising additional funds in the future to support additional research and development costs and to have sufficient resources to support its operations, including the payment of current and non-current liabilities, as they become due.

The Year Ended December 31, 2022, compared to the Year Ended December 31, 2021

During the year ended December 31, 2022, the Company's overall position of cash and cash equivalents decreased by US$ 6,101,000, compared to an increase of US$8,710,000 in the year ended December 31, 2021.

This decrease in cash and cash equivalents can be mainly attributed to the following:

- The Company's net cash used in operating activities during year ended December 31, 2022 amounted to US$6,055,000 as compared to US$6,629,000 for the year ended December 31, 2021. The decrease in net cash used in operating activities in the year ended December 31, 2022 is mainly attributed to the fact that compared to the year 2021, there were fewer payments for the researches and in addition, no annual bonuses were given to employees.
- The Company's net cash provided by financing activities during the year ended December 31, 2022 amounted to US$125,000 as compared to net cash provided of US$15,303,000 for the year ended December 31, 2021. This decrease in cash provided by financing activities during the year ended December 31, 2022 is attributed to cash received in January 2021 from a private placement that closed on December 31, 2020, and to cash received from warrants exercised during the year ended December 31, 2021, which did not recur in the year ended December 31, 2022.
- Exchange rate fluctuations caused the Company's overall position of cash and cash equivalents to decrease by US$128,000.

4. TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making operating and financial decisions. This would include the Company's senior management, who are considered to be key management personnel by the Company.

Parties are also related if they are subject to common control or significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

The following table sets forth information concerning the total compensation paid to the named executive officers (the "**Named Executive Officers**") of the Company for the year ended December 31, 2022 and December 31, 2021.

(USD in thousands)	Year ended December 31,	
	2022	2021
Management compensation	613	827
Share-based compensation	262	615
Services fees	246	

The Company has transactions with key management personnel.

		As of December 31, 2022 (USD in thousands)	**As of December 31, 2021 (USD in thousands)**
Balances owing to the CEO		38	41
Balances owing to the VP Business development		-	1
Balances owing to the Board of directors Chairman		-	2
Balances owing to the CFO		-	4
Balances owing to the COO		4	-

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK EXPOSURES

The Company's financial instruments consist of cash and cash equivalents and, unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

Management understands that the Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates as its operations are located in Israel, and the Company's functional and presentation currency is the USD. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The board of directors of the Company (the "**Board of Directors**") approves and monitors the risk management process. The overall objectives of the Board of Directors are to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

The type of risk exposure and the way in which such exposure is managed is as follows:

- ***Credit Risk* –** The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to financial instruments is remote.
- ***Liquidity Risk* –** The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they come due by raising sufficient funds. As of December 31, 2022, the Company had a US$6,450,000 working capital balance (December 31, 2021 – US$12,035,000, see comment under "liquidity and capital resources" section above), and the Company has little exposure to liquidity risk, as it will balance expenditures with available working capital.
- ***Market Risk* –** Competitive Conditions – The pharmaceutical industry is characterized by extensive research efforts, rapid technological change and intense competition. Competition can be expected to increase as technological advances are made and commercial applications for pharmaceutical products increase. Competition in the pharmaceutical industry is based primarily on the following: product performance, efficacy, safety, ease of use and adaptability to various modes of administration, patient compliance, price, acceptance by physicians, marketing and distribution.
    - The availability of patent protection in the pharmaceutical market, including the USA, the European Union, Canada and other jurisdictions of commercial interest and the ability to obtain governmental approval for testing, manufacturing and marketing are also important factors. The Company faces competing forces in each of its markets, however, owing to their sheer size, each market provides ample opportunity for a new player offering novel solutions to consumers of said market, to carve out a foothold, which it can use as a springboard for capturing additional market share and for extending into other related markets.
- ***Interest Rate Risk* –** The Company has no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors its cash activity and is satisfied with the credit ratings of its banks.
- ***Foreign Currency Risk* –** The Company is exposed to foreign exchange risk as its operations are conducted primarily in US dollars.
- ***Fair Values* –** The carrying values of other receivables approximate their fair values due to their short terms to maturity. The cash is valued using quoted market prices in active markets.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements to which this MD&A applies requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual

outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods when the revision affects both current and future periods.

Below is a list of the critical accounting estimates and judgments applied in this MD&A which may have a significant effect on the figures recognized in the financial statements.

Derivative Fair Value Measurement

In October 2021, the Company issued 9,679,000 Common Shares and Common Warrants as part of the October 2021 Private Placement.

The Common Warrants were recorded as a derivative financial liability and will be re-measured each reporting date, with changes in fair value recognized in finance expense (income), net. The derivative financial liability as at December 31, 2022 amounted to US$304,000.

The fair value of the derivatives was obtained using a structural approach. This approach is based on the Black Scholes (1973) and Merton (1974) models (hereafter: Black Scholes Merton, or BSM), which imply that all corporate securities may be analyzed as a contingent claim on the Company assets, and therefore, their value may be modeled as financial derivative contracts.

7. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

None.

8. FINANCIAL COMMITMENTS

As of December 31, 2022, there is a restricted deposit in the amount of US$53,000, which has been pledged as security to an Israeli bank to secure a credit line from the bank. In addition, deposits in the amount of US$12,000, US$4,000, US$17,000 and US$21,000 were paid to secure rent, car lease, lab rent obligations and tax authority, respectively.

In addition, the Company has research agreements with Yissum and Ramot. Under these agreements, the Company is committed to pay additional amounts during the term of the agreements, as detailed below:

Business activity	**Agreement**	**Commitment Remaining**
CLX	Ramot License & Research Agreement	US$907,000
LPT	Yissum Research & License Agreement	Agreement concluded. New agreement is currently under negotiation.
Topicals	No signed agreements carrying any financial commitment	N/A

9. OTHER INFORMATION

The following details the Common Shares and warrants outstanding as of the date of this MD&A:

Common Shares – As of March 30, 2023, 251,788,858 Common Shares were issued and outstanding.

Share Purchase Warrants

Investors	Number Of Warrants	Exercise Price	Exercisable at March 30, 2023	Expiry Date
2020 Finder Warrants	302,233	CAD 0.25	302,233	June 10, 2023[(1)]
Broker Compensation Warrants	98,560	CAD 0.25	98,560	June 10, 2023[(2)]
October 2021 Common Warrants	9,679,000	CAD 1.10	9,679,000	October 13, 2026[(3)]
Warrants Feb 2023 A	991,000	CAD 0.31	991,000	February 16,2025[(4)]
Warrants Feb 2023 B	991,000	CAD 0.44	991,000	February 16,2026[(5)]

Notes:

(1) Each Finder Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.25 for a period of 36 months following June 10, 2020.

(2) Each Broker Compensation Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.25 for a period of 36 months following June 10, 2020.

(3) Each Common Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 1.10 for a period of 60 months following October 13, 2021.

(4) Each Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.31 for a period of 24 months following February 16, 2023.

(5) Each Warrant entitles the holder thereof to acquire one Common Share at an exercise price of CAD 0.44 for a period of 36 months following February 16, 2023.

Incentive Stock Options

The Company has adopted a stock option plan (the "**Plan**"), which is intended to provide an incentive to retain, persons of training, experience, and ability, to attract new employees, officers, directors, consultants and service providers, to encourage the sense of proprietorship of such persons, and to stimulate the active interest of such persons in the development and financial success of the Company by providing them with opportunities to purchase Common shares of the Company pursuant to the Plan.

During the year ended December 31, 2022, the Company recorded an expense in the amount of US$967,000 (US$2,163,000 for the year ended December 31, 2021) with respect to the issuance of stock options under the Plan.

SUBSEQUENT EVENTS:

1. On February 14, 2023, the Company also approved the issuance of an aggregate of 438,740 options to purchase common shares in the capital of the Company (the "Options") to certain employees and consultants, under the Company's stock option plan. The Options are exercisable for a price of $0.28 per common share for a period of between two and four years, depending on the optionee. The Options expire after between three and five years from the date of issuance.

2. On February 16,2023 the Company closed a non-brokered private placement offering of 1,982,000 units of Innocan (the "Units") at a price of C$0.25 per Unit for aggregate gross proceeds of CA$ 495,500 (the "Offering"). Each Unit consists of: (i) one (1) common share in the capital of the Company (each a "Common Share"); (ii) one-half of one (1) Class A common share purchase warrant (each whole Class A common share purchase warrant, a "Class A Warrant"); and (iii) one-half of one (1) Class B common share purchase warrant (each whole Class B common share purchase warrant, a "Class B Warrant") (collectively each whole Class A Warrant and each whole Class B Warrant, a "Warrant"). Each Class A Warrant will entitle the holder thereof to purchase one Common Share at a price of C$0.31 for a period of two (2) years from the date of issuance. Each Class B Warrant will entitle the holder thereof to purchase one Common Share at a price of C$0.44 for a period of three (3) years from the date of issuance. Following the date of issuance of the Warrants, if the daily volume weighted average trading price of the Common Shares on the Canadian Securities Exchange for any period of 20 consecutive trading days equals or exceeds C$0.62 in the case of a Class A Warrant or C$1.32 in the case of a Class B Warrant, the Company may, upon providing written notice to the holders of the Warrants (the "Acceleration Notice"), accelerate the expiry date of the Warrants to the date that is 30 days following the date of the Acceleration Notice.

3. On February 20,2023, Innocan entered a fourth amendment (the "Fourth Amendment") to the research and license agreement with Yissum . As part of the Fourth Amendment, Innocan agreed to finance additional research with the aim of meeting the FDA guidance on Liposome drug-products in a total amount of approximately US$ 300,000, over a period of 3 months (February 2023-April 2023). There is an ongoing negotiation with Yissum regarding the next step.

10. RISKS AND UNCERTAINTIES

Risks Related to our Business and Industry

Going Concern

Since inception, the Group has generated revenues that increased during the year ended December 31, 2022, but despite this, the Group expects to continue to finance itself through

raising adequate funds in the foreseeable future. During the year ended December 31, 2022, the Group had a net loss of $3,889 thousand, negative cash flow from operation of $6,055 thousand, and generated $28,374 thousand of accumulated deficit since inception. The Group currently has insufficient cash to fund its operations for the next 12 months. These material uncertainties may cast significant doubt upon the Group's ability to continue as a going concern. In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the twelve-month period following December 31, 2022.

The Group is currently implementing various financing strategies, including the following:

- The Group is actively monitoring cash forecasts and managing performance against its forecasts.

- The Group has identified various cost-reduction initiatives

- The Group has a plan in place to issue additional shares under a non-brokered private placement to raise additional proceeds.

The Group believes that based on the financial strength of its existing shareholder base, and previous success in raising capital, any shortfall in its operating plan may be met through one or more of the above strategies.

Regulatory Risks

Successful execution of the Company's strategy is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products, including maintaining and renewing its licenses. The impact of regulations in the jurisdictions where the Company is looking to operate or sell its products, such as the compliance regimes under the Food and Drug Administration, European Medicines Agency, and Health Canada, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, financial condition and operating results of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, financial condition and operating results of the Company.

Change in laws, regulations and guidelines

The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, packaging/labelling, advertising, sale, transportation, storage and disposal of pharmaceutical products but also including laws and regulations relating to drug, controlled substances, health and safety, the conduct of operations and the protection of the environment at the territories the Company is looking to be active. While to the knowledge of management, other than routine corrections that may be required by health authorities in the U.S.,

Canada and European Union from time to time, the Company is currently in compliance with all such laws. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to its operations.

The Company endeavors to comply with all relevant laws, regulations and guidelines in the countries that the Company is looking to be active. To the Company's knowledge, it is complying or is in the process of being assessed for compliance with all such laws, regulations and guidelines as described elsewhere in this MD&A.

Reliance on Key Contracts

The Company is reliant on certain key commercial agreements, including the Yissum research and license agreement, in order to continue operations. These agreements may include options for termination by the other parties if the Company fails to meet certain development milestones, does not commercialize the products within a reasonable timeframe, or fails to file and maintain patents in certain jurisdictions. The loss of any of these key commercial agreements could materially adversely affect the Company's ability to execute its business plan and strategy, and it may not be able to find adequate replacements on a timely basis, or at all.

Medical research of phytocannabinoids

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy and dosing of cannabis or isolated phytocannabinoids remains in their early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated phytocannabinoids. The statements made in this MD&A concerning the potential medical benefits of cannabinoids are based on published articles and reports with details of research studies and clinical trials, including those shown in the list of third-party studies summarized in the Company's initial public offering (IPO). As a result, the statements made in this MD&A are subject to the experimental parameters, qualifications and limitations in the studies that have been completed.

We rely on management and need additional key personnel to grow our business, and the loss of key employees or inability to hire key personnel could harm our business.

We believe our success has depended, and continues to depend, on the efforts and talents of our management team and employees. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and we may incur significant costs to attract and retain them. In addition, the loss of any of our senior management or key employees could materially adversely affect our ability to execute our business plan and strategy, and we may not be able to find adequate replacements on a timely basis, or at all. We do not maintain key person life insurance policies on any of our employees.

Factors which may prevent realization of growth targets

The Company is currently in the expansion stage from early development stage. There is a risk that expansion and development will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these Risks and Uncertainties and the following:

1. failure or delays in obtaining, or conditions imposed by, regulatory approvals;
2. environmental pollution; non-performance by third party contractors; increases in materials or labour costs; construction performance falling below expected levels of output or efficiency;
3. breakdown, aging or failure of equipment or processes;
4. contractor or operator errors;
5. operational inefficiencies;
6. labour disputes, disruptions or declines in productivity; inability to attract sufficient numbers of qualified workers; disruption in the supply of energy and utilities; and
7. major incidents and/or catastrophic events such as fires, explosions, or storms.

As a result, there is a risk that the Company may not have product or sufficient product available to meet the anticipated demand or to meet future demand when it arises.

Additional financing

There is no guarantee that the Company will be able to execute on its strategy. The continued development of the Company may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of the current business strategy or the Company ceasing to carry on business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may contain provisions, which, if breached, may entitle lenders to accelerate repayment of loans and there is no assurance that the Company would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing. The Company may require additional financing to fund its operations to the point where it is generating positive cash flow. Negative cash flow may restrict the Company's ability to pursue its business objectives.

Competition

There is potential that the Company will face intense competition from other companies, some of which can be expected to have more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

Research and development and product obsolescence

Rapidly changing markets, technology, emerging industry standards and frequent introduction of new products characterize the Company's business. The introduction of new products embodying

new technologies, including new manufacturing processes, and the emergence of new industry standards may render the Company's products obsolete, less competitive or less marketable. The process of developing the Company's products is complex and requires significant continuing costs, development efforts and third party commitments The Company's failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect the business, financial condition and operating results of the Company. The Company may be unable to anticipate changes in its potential customer requirements that could make the Company's existing technology obsolete. The Company's success will depend, in part, on its ability to continue to enhance its existing technologies, develop new technology that addresses the increasing sophistication and varied needs of the market, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of the Company's proprietary technology entails significant technical and business risks. The Company may not be successful in using its new technologies or exploiting its niche markets effectively or adapting its businesses to evolving customer or medical requirements or preferences or emerging industry standards.

Transportation risks

Due to the perishable and premium nature of the Company's products, the Company will depend on fast and efficient third party transportation services to distribute its product. Any prolonged disruption of third party transportation services could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the third party transportation services used by the Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably.

Due to the nature of the Company's products, security of the product during transportation to and from the Company's facilities is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the business, financial condition and operating results of the Company. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of Health Canada, could also have an impact on the Company's ability to continue operating under its licenses or the prospect of renewing its licenses.

We may be subject to unfavourable publicity or consumer perception

The Company believes the medical cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical cannabis produced. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the

Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical cannabis in general, or the Company's products specifically, or associating the consumption of medical cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

Product liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by the Company caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the business, financial condition and operating results of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of products.

Product recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products produced by the Company are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for products produced by the Company and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the operations of the Company by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Reliance on key inputs

The Company's business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Company.

Dependence on suppliers and skilled labour

The Company is dependent on various suppliers for inputs for its commercial products, in particular, the availability of CBD will vary in various target markets, depending on national regulations and supply levels.

Difficulty to forecast

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the cannabis pharmaceutical industry in North America and Europe. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Operating risk and insurance coverage

The Company has insurance to protect its assets, operations and employees. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Management of growth

The Company may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Conflicts of interest

The Company may be subject to various potential conflicts of interest because of the fact that some

of its officers and directors may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time to time deal with persons, firms, institutions or Companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

We are subject to environmental regulations and risks

The Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the business, financial condition and operating results of the Company.

Government approvals and permits are current and may in the future be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed production of medical cannabis or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

In certain circumstances, the Company's reputation could be damaged

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased

usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regard to the Company and its activities, whether true or not. Although the Company believes that it operates in a manner that is respectful to all stakeholders and that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

Third party reputational risk

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's medical cannabis business activities. This may impact the Company's ability to retain current partners, such as its banking relationship, or source future partners as required for growth or future expansion in Canada or the USA. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

Changes to safety, health and environmental regulations could have a material effect on future operations

Safety, health and environmental legislation affects nearly all aspects of the Company's operations including product development, working conditions, waste disposal and emission controls. Compliance with safety, health and environmental legislation can require significant expenditures and failure to comply with such safety, health and environmental legislation may result in the imposition of fines and penalties, the temporary or permanent suspension of operations, clean-up costs resulting from contaminated properties, damages and the loss of important permits. Exposure to these liabilities arises not only from the Company's existing operations, but from operations that have been closed or sold to third parties. The Company could also be held liable for worker exposure to hazardous substances and for accidents causing injury or death. There can be no assurances that the Company will at all times be in compliance with all safety, health and environmental regulations or that steps to achieve compliance would not materially adversely affect the Company's business.

Safety, health and environmental laws and regulations are evolving in all jurisdictions where the Company has activities. The Company is not able to determine the specific impact that future changes in safety, health and environmental laws and regulations may have on its operations and activities, and its resulting financial position; however, the Company anticipates that capital expenditures and operating expenses will increase in the future as a result of the implementation of new and increasingly stringent safety, health and environmental regulation. Further changes in safety, health and environmental laws, new information on existing safety, health and environmental conditions or other events, including legal proceedings based upon such conditions or an inability to obtain necessary permits, may require increased financial reserves or compliance expenditures or otherwise have a material adverse effect on the Company.

Disruption of Supply Chain

Conditions or events including, but not limited to, those listed below could disrupt the Company's supply chains, interrupt operations at its facilities, increase operating expenses, resulting in loss of sales, delayed performance of contractual obligations or require additional expenditures to be incurred:

(a) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.;
(b) a local, regional, national or international outbreak of a contagious disease, including the Coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in a general or acute decline in economic activity;
(c) political instability, social and labour unrest, war or terrorism; and
(d) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road.

Information systems security threats

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("**IT**") services in connection with its operations. The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, terrorism, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.
The Company has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Additional Risks

The Company notes that additional risks to the business are outlined in the Company's Annual Information Form for the year ended December 31, 2022, which is available on the Company's profile at www.sedar.com.

Additional Information:

The Company files annual and interim financial reports, Management Discussion and Analysis, Management Information Circulars, and other information with certain Canadian regulatory authorities. Additional information relating to the Company is available at www.sedar.com.

March 30, 2023